

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Marysville	County St. Clair
Audit Date 6/30/04	Opinion Date 9/1/04	Date Accountant Report Submitted to State: 11/15/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

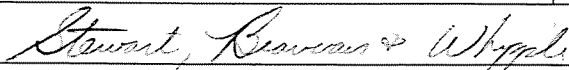
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave.		City Port Huron	State Mi
Accountant Signature 		ZIP 48061	
		Date	

CITY OF MARYSVILLE, MICHIGAN

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2004

Stewart,
Beauvais
& Whipple P.C.



CERTIFIED PUBLIC ACCOUNTANTS

CITY OF MARYSVILLE, MICHIGAN

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CITY OF MARYSVILLE, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marysville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As explained in Note 1 to the financial statements referred to above do not include the Marysville Housing Commission, a component unit of the City of Marysville, which should be included to conform with accounting principles generally accepted in the United States of America. The amount of assets, liabilities, net assets, revenues and expenditures that should be included is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

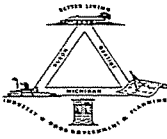
In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2004, on our consideration of the City of Marysville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12, and schedule of funding progress, schedule of employer contributions and budgetary comparisons on pages 49 through 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marysville's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

September 1, 2004



CITY OF MARYSVILLE

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MANAGEMENT DISCUSSION AND ANALYSIS

This section of the City of Marysville's annual financial report presents the City's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the City's financial statements, which follow this section. Comparative data to the prior year is included in this report when available and appropriate.

FINANCIAL HIGHLIGHTS

- Total cost of all of the City's governmental programs (all funds except for water, sewer, golf and pension related funds) was \$10,367,139 with no new programs added this year.
- In the City's business-type activities (sewer, water and golf), revenues were \$3,626,792 (including non-operating revenues), and expenses of \$3,562,686 (not including transfers), resulting in a net income before transfers of \$64,106.
- The City of Marysville's total debt increased by \$854,848 during the current fiscal year. Principal payments of \$370,000 were made for the Sewer Separation Bonds and the Building Authority Bonds. However, the City received \$1,224,848 Bond Proceeds for the Wet Weather Sewer Project.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – Management Discussion and Analysis (this section), the Basic Financial statements, required supplementary information (RSI), and an optional section that presents combining statements for non-major governmental funds and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City: Government-wide Financial Statements and Fund Financial Statements. The table below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the City of Marysville Financial Statements

<i>Statement Type</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private business: Water, Sewer and Golf Fund	Where City is trustee for someone else's resources, ex. City General Retirement System
<i>Required financial statements</i>	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> - Statement of net assets - Statement of revenues, expenses and changes in fund net assets - Statement of cash flows 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
<i>Accounting basis & measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short- and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short- and long-term	All assets & liabilities, both short and long-term; the City's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the year end; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenue and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies and provide long- and short-term information. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets defined, as the difference between assets and liabilities, is one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities (all activities except sewer, water, golf and pension related funds) – most of the City's basic services are included here, such as public safety,

public works, parks and general administration. Property taxes and state and federal grants finance most of these activities.

- Business-type activities – activities where the City charges fees to customers to help it cover the cost of services it provides; included here is the sewer, water and golf funds.
- Component units – although legally separate, the Housing Commission is important because the City is financially accountable for them. The independent audit for the Housing Commission has not been completed as of the date of the publication of this audit. Once completed, a copy can be obtained upon request.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- Governmental funds-Most of the City's basic services are reported in governmental funds (all funds except water, sewer, golf and pension related funds), which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. We describe the relationship (or differences) between governmental activities (in Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation schedules on pages 17 and 19.
- Proprietary funds-Services for which the City charges customers a fee (water, sewer, motor pool and golf) are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The City's *enterprise* funds (a type of proprietary fund) are the same as the business-type activities, but provide more detail and information. The *internal service* fund (another proprietary fund type) reports activities that provide supplies and services for the City's other programs. The internal service fund reported here is the Motor Pool Fund.
- Fiduciary funds-The City is the trustee, or fiduciary, for its employees' pension and other employee benefit trust funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. They are excluded from the government-wide financial statements because these assets cannot be used to finance the City's operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets decreased from a year ago from \$42.9 million to \$41.2 million or approximately 4%. Our analysis focuses on the net assets (Table 1) of the City's governmental and business type activities. Comparison data from the prior year is also shown.

Table 1
Net Assets of Governmental and Business-type Activities
(in thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business- type</u> <u>Activities</u>		<u>Total</u> <u>Government</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Current and other assets	\$10,427	9,513	\$ 3,867	\$2,061	\$14,294	\$11,575
Capital Assets	22,598	22,005	15,213	17,143	37,811	39,148
<i>Total Assets</i>	<i>\$33,025</i>	<i>\$31,518</i>	<i>\$19,080</i>	<i>\$19,204</i>	<i>\$52,105</i>	<i>\$50,723</i>
Long-term debt outstanding	2,825	2,750	4,510	5,440	7,335	8,191
Other liabilities	1,585	847	285	514	1,870	1,360
<i>Total Liabilities</i>	<i>\$4,410</i>	<i>\$3,597</i>	<i>\$4,795</i>	<i>\$5,954</i>	<i>\$ 9,205</i>	<i>\$9,551</i>
Net Assets:						
Invested in capital assets, net of debt	19,773	19,255	10,411	11,425	30,184	30,680
Restricted	1,641	1,467	0	0	1,641	1,467
Unrestricted	7,201	7,199	3,873	1,826	11,074	9,025
<i>Total Net Assets</i>	<i>\$28,615</i>	<i>\$27,921</i>	<i>\$14,284</i>	<i>\$13,251</i>	<i>\$42,899</i>	<i>\$41,172</i>

The decrease in net assets for the governmental activities is \$693,479. That represents about a 2.4 percent decrease of the total assets for all governmental activities. This decrease is considered fairly small in relation to the overall amounts. No governmental fund experienced a decrease in net assets that lowered its fund balance to less than the goal of 25% of the budgeted amount. That leaves the City in excellent financial condition to continue operations.

The decrease in net assets for business type activities of \$1,033,894 is primarily directly attributable to the \$1,000,000 transfer to the Retiree Health Care Fund from the Water Fund. This transfer was anticipated and adequate net assets remains in the Water Fund. These transfers are necessary to prepare the City for upcoming liabilities as required by accounting standards.

Governmental Activities

Governmental activities for the City include four major activities: General Government, Public Safety, Public Works, and Recreation/Culture. General Government includes Administration, Assessor, Treasurer, Clerk, Finance and Community Development departments. Public Safety includes Police, Fire, Civil Defense and Building Inspector

departments. Public Works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The library, city parks, historical and recreation activities comprise the Recreation and Culture activity.

The largest revenue for governmental activities is the general operating property tax. The City was allowed by State law to increase its property tax by 1.5% (the raw rate of inflation) for those properties that were not sold and had no construction improvements. The taxable value of property in the City increased by 4.1% due to new construction and uncapping of sold properties. This resulted in an increase of taxes of \$187,285 over the prior year.

State shared revenue decreased for the second year in a row. This year's decrease is 7.9 percent (\$93,685). Last year's decrease was 11.14 % or \$148,450. The State of Michigan collects sales tax and redistributes a portion of these collections to local jurisdictions. Revenue Sharing is the second largest source of revenue for the City. It is somewhat volatile since it fluctuates with the economy.

To assist in maintenance and repair of the road system, the City receives Michigan Transportation Fund money. In Fiscal Year 04, they received \$634,980 from the Transportation Fund that is included in the "program revenues" section of the State of Activities for Public Works (operating grants and contributions). This represents a modest 2.6% increase from the prior year. The Transportation Fund money varies from year to year and is based on state revenues at the gasoline pumps. In addition, the City was able to secure a grant from the State to assist the rebuilding of River Road between Busha and Huron. The amount of the grant received in FY 04 is \$201,285.

The Program Revenues for Public Safety includes two major sources: the collections for the ambulance services (EMS) in the Fire department and the permits and licenses for general construction in the city.

Table 2 below presents the cost of each of the City's programs- general government, public safety, public works, and recreation/culture, and others-as well as each program's net cost (total cost less revenues generated by the activities). The table includes comparison data for fiscal year ending 6-30-03 and for fiscal year ending 6-30-04. The net cost shows the financial burden that was placed on the City's taxpayers (by property tax and revenue sharing from the State) by each of these functions.

Table 2
Governmental Activities

(in thousands of dollars)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>2003</u>	<u>2004</u>	<u>2003-2004</u>	<u>2003</u>	<u>2004</u>	<u>2003-2004</u>
General Government	\$1,033	\$878	-15%	\$961	\$800	-16.8%
Public Safety	3,349	3,620	8%	2,954	3,150	6.6%
Public Works	3,912	4,330	10.6%	2,783	3,114	11.9%
Recreation & Culture	642	562	-12%	591	506	-14%
All others	465	977	110%	465	284	-38.9%
Totals	\$9,401	\$10,367		\$7,754	\$7,854	

Business-type Activities

The City has three business-type activities: water, sewer and golf funds. Revenues of these activities (see Table 3) decreased by 2.82 percent (\$105,188), and expenses decreased by 0.01 percent (\$32,596). The City experienced a net asset decrease of \$1,033,894.

Table 3
Changes in Net Assets of Business-type Activities

	<u>2003</u>	<u>2004</u>
Revenues:		
Charges for Services	\$3,372,436	\$3,413,787
Other	213,749	203,763
Investment Earnings	145,795	9,242
Total Revenues	<u>\$3,731,980</u>	<u>3,626,792</u>
Expenses:		
Operating & Non-operating	<u>3,595,222</u>	<u>3,562,686</u>
Total Expenses	<u>3,595,222</u>	<u>3,562,686</u>
Excess before transfers	\$136,758	\$64,106
Transfers	<u>(100,000)</u>	<u>(1,098,000)</u>
Increase in Net Assets	<u>\$36,758</u>	<u>(\$1,033,894)</u>

The main factor driving these results is that the Water Fund made a one-time transfer to the Retiree Health Care Fund of \$1,000,000. This accounts for 97% of this decrease. The City has a commitment to fund the account and in previous years only the General Fund has made contributions. The rest of the decrease in net assets is a combination of a poor golf season, due primarily to the economy, and the need to increase the wastewater rates, which was done on July 1, 2004. Another contributing factor was the write down of investments to market value as of 6-30-04.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Marysville uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City of Marysville's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Marysville's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$7,494,516, an increase of \$195,438 or a 2.7 percent increase. Approximately 74 percent of this total amount (\$5,578,204) constitutes unreserved fund balance, which is available for spending at the government's discretion. Of this unreserved amount, \$780,271 has been designated for various items, such as EMS equipment (\$493,053) and building improvements (\$203,850). A complete listing can be found on page 45 in the Notes to Financial Statements. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the City of Marysville. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,142,702, while total fund balance reached \$4,615,189. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 65.3 percent of total general fund expenditures, while total fund balance represents 72.7 percent of that same amount.

Proprietary Funds

The City of Marysville's proprietary funds provide the same type of information in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year for the Water Fund were \$1,403,698, for the Wastewater Fund were \$246,420, and for the Golf Course were \$175,736. The decrease in total net assets in the Water Fund was \$931,161, which as noted before in this discussion is primarily due to the 1 million dollar transfer to the Retiree Health Care Fund. The decrease in total net assets for the Wastewater Fund was \$48,780, which represents approximately a 1 percent decrease. The Golf Course had a decrease in total net assets of \$53,953 or approximately a 4 percent decrease. The Golf Course is directly affected by economy and weather.

General Fund Budgetary Highlights

There were no amendments by the City Council to the original budget passed in May 2003. Even though the budget is passed by the City Council prior to the beginning of the fiscal year, all expenditures throughout the year are reviewed and approved as they occur. Council and Administration, during Budget sessions, attempt to enable the City to respond to any changes that can and do occur throughout the twelve month period. During the Budget process the Council discusses major projects, proposed for the upcoming year, as well as looking beyond the budget year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the City had a net book value of \$39.15 million invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 for a schedule showing the Capital Assets at year-end for both the year ending 6-30-03 and 6-30-04 for both the Governmental and the Business-type activities. There is also a total column for the Total Primary Government for each year.

Table 4
Capital Assets at Year-end
(Net of Depreciation - in thousands)

	Governmental		Business- type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Land	\$993.9	\$1,008.9	\$ 91.5	\$ 91.5	\$1,085.4	\$1,100.4
Land improvements	460.8	752.6	532.4	578.6	993.2	1,331.2
Construction-in-progress	220.6	497.2	361.4	1,908.9	582.0	2,406.1
Buildings	4,297.3	4,186.7	3,104.2	3,030.9	7,401.5	7,217.6
Building improvements	250.0	263.3	180.1	162.0	430.1	425.3
Machinery & Equipment	1,016.4	963.4	622.5	832.8	1,638.9	1,796.2
Vehicles	392.1	276.6	-	-	392.1	276.6
Bike paths	315.0	303.0	-	-	315.0	303.0
Sidewalks	740.1	746.6	-	-	740.1	746.6
Streets	13,912.1	13,006.5	-	-	13,912.1	13,006.5
Water & Sewer systems	-	-	10,320.7	10,538.0	10,320.7	10,538.0
Totals	\$22,598.3	\$22,004.8	\$15,212.8	\$17,142.7	\$37,811.1	\$39,147.5

This year's major additions included:

River Road (remilled-partial)	\$	288,802
River Walk Improvements		262,939
Wastewater Plant Polymer Feed System		37,708
Annual Concrete Streets Improvement program		170,991
Water & Sewer Lines Improvements		444,511
Three DPW vehicles		100,074
Library HVAC		60,234
Water Plant Building Improvements		59,416

As of 6-30-04, the City has two projects in process that will be completed in Fiscal Year 05. One is the Filter Control and Value Replacement at the Water Plant. The other is the Wet Weather Wastewater project as directed by the Michigan Department of Environmental Quality. When completed it will upgrade its retention facility and further decrease its excess flows into the St. Clair River during wet weather. The total obligation bond for this project is \$2.55 million. This debt will be paid through user fees.

Additional projects for Fiscal Year 05 include the annual street repair and mill and resurface Huron Avenue. The Huron project will be about 75% funded by the Federal Aid to Urban Systems TEA-21 State and Federal Grant program. The city will continue to work on the Walkable Community Program, assisted by a \$65,000 enhancement grant.

Debt

At year-end, the City has \$8,189,848 in bonds outstanding versus \$7,335,000 last year. That is a 11.7% increase over last year, entirely due to the start of the Wet Weather Project in FY04. The City received \$1,224,848 progress payments throughout the 2004 fiscal year for the Wet Weather project. Table 5 below illustrates the outstanding debt at year end..

Table 5
Outstanding Debt. at Year-end
(In Millions)

	Governmental		Business- type		Totals	
	<u>Activities</u>		<u>Activities</u>		<u>Activities</u>	
	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
General Obligation Bonds (backed by the City)	\$2,825	\$2,750	\$ -0-	\$ -0-	\$2,825	\$2,750
Revenue Bonds (backed by specific fee revenues)	\$ -0-	\$ -0-	\$4,510	\$5,440	\$4,510	\$5,440
Totals	\$2,825	\$2,750	\$4,510	\$5,440	\$7,335	\$8,190

The General Obligation bonds currently due are from the construction of the Police and Fire building and the purchase of the Department of Public-Works complex. These bonds were taken out in 1996 in the amount of \$3,225,000 and will be paid off in fiscal year 2022.

The revenue bonds are a result of the Combined Sewer Separation and the Wet Weather project that the Michigan Department of Environmental Quality required of the City to decrease excess flows into the St. Clair River. The user fees in the sewer fund create the revenue to pay off these bonds. In September 1993, \$2,375,181 was received for Phase I of the CSO project in bonds and is scheduled to be paid off in fiscal year 2015. Phase II of that same project was received by October 1996 for \$3,950,000 and is scheduled to be paid off in fiscal year 2018. As of the end of fiscal year 04, \$1,224,848 was received by the City for the Wet Weather Project.

The State limits the amount of general obligation debt that cities can issue to 10 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below this \$43 million state-imposed limit.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marysville (2000 census-population of 9,684) is primarily a residential community located in St. Clair County, Michigan. The city's proximity to the downtown Detroit metropolitan area and several major roadways, including Interstate Highway 94, has helped spur recent residential development. The reported median income level for Marysville is currently \$49,299 and the median house value is \$129,700. Meijer Corporation, a large multi departmental store, has begun construction at the Range and Gratiot intersection and is expected to be open by Spring of 2005. This retail development is expected to spur further growth that will be beneficial to the community as a whole.

In FY 2003-2004, the general fund posted an excess of revenues after transfers of \$246,798. The current unreserved fund balance for the general fund is \$3.4 million, a 5% increase. The City, which relies heavily on property taxes (72.65% of total revenues versus 70.1% in 2003), continues operating within the state-authorized tax rate limit. With the anticipated decrease in Revenue Sharing at the State level in the future, the City administration working closely with the Council looks carefully at the budget process to keep the finances strong.

The City has also adopted a balanced budget for FY 2004-2005. The City's elected and appointed officials considered many factors when setting the 2004-2005 budget, tax rates, and fees that will be charged for the city's activities. The expenditures budgeted for the general fund decreased by \$79,900. The revenue from Property taxes was budgeted to increase by five percent. While the state Shared Revenue forecast decreased by two percent from the prior year. The City has added no major new programs to the FY 2004-2005 budget. The City will continue to apply for grants whenever possible to assist in the cost of any major projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office by mail at 1111 Delaware, Marysville, MI 48040, by phone 810-364-6613, by fax 810-364-3940, or e-mail finance@cityofmarysvillemi.com.

BASIC FINANCIAL STATEMENTS

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Primary Government		
	Governmental	Business Type	
	Activities	Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 26,765	\$ 5,643	\$ 32,408
Investments	9,636,768	2,027,953	11,664,721
Receivables (net of allowance)	463,054	564,572	1,027,626
Prepaid expenditures	176,706	31,799	208,505
Internal balances	278,067	(278,067)	-
Due from fiduciary funds	(1,093,940)	(317,493)	(1,411,433)
Due from component units	25,919	-	25,919
Inventory	-	27,177	27,177
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	1,506,126	2,579,038	4,085,164
Assets being depreciated	20,498,763	14,563,651	35,062,414
Total Assets	<u>31,518,228</u>	<u>19,204,273</u>	<u>50,722,501</u>
LIABILITIES:			
Payables and accrued liabilities	664,255	476,961	1,141,216
Accrued interest	36,291	30,663	66,954
Advances and deposits	145,995	-	145,995
Deferred revenue	-	6,173	6,173
Non-current liabilities			
Due within one year	100,000	300,000	400,000
Due in more than one year	2,650,000	5,139,848	7,789,848
Total Liabilities	<u>3,596,541</u>	<u>5,953,645</u>	<u>9,550,186</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	19,254,889	11,424,774	30,679,663
Restricted			
Acquisition/construction of capital assets	1,115,684	-	1,115,684
Cemetery perpetual care			
Expendable	93,620	-	93,620
Nonexpendable	193,245	-	193,245
Other	65,146	-	65,146
Unrestricted	7,199,103	1,825,854	9,024,957
Total Net Assets	<u>\$ 27,921,687</u>	<u>\$ 13,250,628</u>	<u>\$ 41,172,315</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 878,073	\$ 78,121		\$ -
Public Safety	3,620,195	428,315	42,171	-
Public Works	4,329,411	15,066	662,148	537,920
Recreation and Culture	562,135	21,027	34,988	-
Other Activities	830,805	-	693,098	-
Interest on Long Term Debt	146,520	-	-	-
Total governmental activities	<u>10,367,139</u>	<u>542,529</u>	<u>1,432,405</u>	<u>537,920</u>
Business type activities				
Water Supply System	1,550,725	1,781,395	-	-
Wastewater	1,381,668	1,262,683	-	-
Golf Course	630,293	573,472	-	-
Total business type activities	<u>3,562,686</u>	<u>3,617,550</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>13,929,825</u>	<u>4,160,079</u>	<u>1,432,405</u>	<u>537,920</u>

General revenues:

Property taxes
Grants and contribution not -
 restricted to specific programs
Unrestricted investment income
Gain on sale of fixed assets
Transfer - internal activities
Transfers to fiduciary fund
Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		
Governmental Activities	Business Type Activities	Total
\$ (799,952)	\$ -	\$ (799,952)
(3,149,709)	-	(3,149,709)
(3,114,277)	-	(3,114,277)
(506,120)	-	(506,120)
(137,707)	-	(137,707)
(146,520)	-	(146,520)
(7,854,285)	-	(7,854,285)
-	230,670	230,670
-	(118,985)	(118,985)
-	(56,821)	(56,821)
-	54,864	54,864
(7,854,285)	54,864	(7,799,421)
6,017,505	-	6,017,505
1,193,372	-	1,193,372
168,284	7,860	176,144
-	1,382	1,382
147,000	(98,000)	49,000
(365,355)	(1,000,000)	(1,365,355)
7,160,806	(1,088,758)	6,072,048
(693,479)	(1,033,894)	(1,727,373)
28,615,166	14,284,522	42,899,688
\$ 27,921,687	\$ 13,250,628	\$ 41,172,315

CITY OF MARYSVILLE, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General</u>	<u>Capital Projects Fund Motor Vehicle Highway</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 752	\$ 899	\$ 22,890	\$ 24,541
Investments	5,494,396	557,000	2,297,664	8,349,060
Receivables -				
Property taxes (net of allowance)	21,353	2,278	939	24,570
Interest and accounts	94,041	-	2,880	96,921
Special assessments	-	-	47,296	47,296
Due from other governmental units -				
Federal/State	147,091	-	107,846	254,937
Local	-	-	34,988	34,988
Due from other funds	39,471	-	-	39,471
Due from component units	25,919	-	-	25,919
Advance to other funds	278,067	-	-	278,067
Prepayments and deposits	164,337	-	6,213	170,550
Total Assets	<u>\$ 6,265,427</u>	<u>560,177</u>	<u>\$ 2,520,716</u>	<u>\$ 9,346,320</u>
Liabilities:				
Accounts payable	\$ 266,603	92,829	\$ 26,496	\$ 385,928
Accrued liabilities	189,008	-	3,910	192,918
Advances and deposits	145,995	-	-	145,995
Due to other funds	1,027,279	-	37,922	1,065,201
Deferred revenue	21,353	2,278	38,131	61,762
Total Liabilities	<u>1,650,238</u>	<u>95,107</u>	<u>106,459</u>	<u>1,851,804</u>
Fund Balances:				
Reserved -	472,487	465,070	978,755	1,916,312
Unreserved -				
Designated -	760,626	-	19,645	780,271
Undesignated -				
General Fund	3,382,076	-	-	3,382,076
Special Revenue Funds	-	-	1,415,857	1,415,857
Total Equity	<u>4,615,189</u>	<u>465,070</u>	<u>2,414,257</u>	<u>7,494,516</u>
Total Liabilities and Fund Equity	<u>\$ 6,265,427</u>	<u>\$ 560,177</u>	<u>\$ 2,520,716</u>	<u>\$ 9,346,320</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Fund Balances - total governmental funds		\$	7,494,516
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			47,160,759
Accumulated depreciation		(25,747,033)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Delinquent Personal Property Taxes	24,570		
Special Assessments	<u>37,192</u>		61,762
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			
			1,737,974
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds payable	(2,750,000)		
Accrued interest	<u>(36,291)</u>	(<u>2,786,291)</u>
Net Assets of governmental activities		\$	<u><u>27,921,687</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

		Capital Projects Fund		
	General	Motor Vehicle Highway	Other Governmental Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 5,014,053	\$ 562,038	\$ 450,148	\$ 6,026,239
Licenses and permits	299,536	-	-	299,536
Intergovernmental -				
Federal/State	1,132,373	537,920	1,355,246	3,025,539
Local	-	-	34,988	34,988
Charges for services	244,662	-	-	244,662
Fines and forfeits	25,821	-	-	25,821
Interest and rent	144,944	3,833	25,182	173,959
Special assessment	-	-	42,024	42,024
Other	39,510	-	25,711	65,221
Total Revenues	<u>6,900,899</u>	<u>1,103,791</u>	<u>1,933,299</u>	<u>9,937,989</u>
Expenditures:				
Current -				
General Government	530,768	-	-	530,768
Public Safety	2,664,882	-	118	2,665,000
Public Works	1,387,226	22,185	757,211	2,166,622
Recreation and Cultural	258,120	-	256,544	514,664
Other Activities	1,437,616	-	731,156	2,168,772
Capital Outlay	67,313	866,094	686,902	1,620,309
Debt Service				
Principal	-	-	75,000	75,000
Interest	-	-	148,416	148,416
Total Expenditures	<u>6,345,925</u>	<u>888,279</u>	<u>2,655,347</u>	<u>9,889,551</u>
Excess of revenues over (under) expenditures	<u>554,974</u>	<u>215,512</u>	<u>(722,048)</u>	<u>48,438</u>
Other Financing Sources (Uses):				
Operating transfers from other funds	24,952	-	933,639	958,591
Operating transfers to other funds	(333,128)	(68,500)	(409,963)	(811,591)
Total Other Financing Sources (Uses)	<u>(308,176)</u>	<u>(68,500)</u>	<u>523,676</u>	<u>147,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>246,798</u>	<u>147,012</u>	<u>(198,372)</u>	<u>195,438</u>
Fund Balances at beginning of year	<u>4,368,391</u>	<u>318,058</u>	<u>2,612,629</u>	<u>7,299,078</u>
Fund Balances at end of year	<u>\$ 4,615,189</u>	<u>\$ 465,070</u>	<u>\$ 2,414,257</u>	<u>\$ 7,494,516</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2004**

Net change in fund balances - total governmental funds		\$	195,438
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			1,530,236
Depreciation expense		(2,092,741)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(45,974)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	75,000		
Decrease in accrued interest	<u>1,896</u>		76,896
Internal service funds used by management to charge costs of the City's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			
		(<u>357,334</u>)
Change in net assets of governmental activities		\$	<u><u>(693,479)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Fund
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 3,219	\$ 1,344	\$ 1,080	\$ 5,643	\$ 2,224
Investment	1,210,012	597,941	220,000	2,027,953	1,287,708
Accounts and interest receivable	390,628	173,944	-	564,572	4,342
Inventories	-	-	27,177	27,177	-
Prepaid expenses	13,007	10,893	7,899	31,799	6,156
Total Current Assets	<u>1,616,866</u>	<u>784,122</u>	<u>256,156</u>	<u>2,657,144</u>	<u>1,300,430</u>
Property, Plant and Equipment:					
Property, plant and equipment	10,648,872	12,670,117	1,974,620	25,293,609	1,528,728
Less - accumulated depreciation	(4,798,281)	(2,742,022)	(610,617)	(8,150,920)	(937,565)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>5,850,591</u>	<u>9,928,095</u>	<u>1,364,003</u>	<u>17,142,689</u>	<u>591,163</u>
Total Assets	<u><u>7,467,457</u></u>	<u><u>10,712,217</u></u>	<u><u>1,620,159</u></u>	<u><u>19,799,833</u></u>	<u><u>1,891,593</u></u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	72,806	392,949	10,830	476,585	85,409
Accrued expenses	376	-	-	376	-
Accrued interest	-	30,663	-	30,663	-
Notes payable (current portion)	-	300,000	-	300,000	-
Due to other funds	139,986	114,090	63,417	317,493	68,210
Deferred revenue	-	-	6,173	6,173	-
Total Current Liabilities	<u>213,168</u>	<u>837,702</u>	<u>80,420</u>	<u>1,131,290</u>	<u>153,619</u>
Long-Term Liabilities (less current portions):					
Advance from other funds	-	-	278,067	278,067	-
Notes payable (net of current portion)	-	5,139,848	-	5,139,848	-
Total Long-Term Liabilities	<u>-</u>	<u>5,139,848</u>	<u>278,067</u>	<u>5,417,915</u>	<u>-</u>
Total Liabilities	<u>213,168</u>	<u>5,977,550</u>	<u>358,487</u>	<u>6,549,205</u>	<u>153,619</u>
NET ASSETS:					
Investment in capital assets, net of related liabilities	5,850,591	4,488,247	1,085,936	11,424,774	591,163
Unrestricted					
Designated	38,000	-	50,000	88,000	146,000
Undesignated	<u>1,365,698</u>	<u>246,420</u>	<u>125,736</u>	<u>1,737,854</u>	<u>1,000,811</u>
Total Net Assets	<u><u>\$ 7,254,289</u></u>	<u><u>\$ 4,734,667</u></u>	<u><u>\$ 1,261,672</u></u>	<u><u>\$ 13,250,628</u></u>	<u><u>\$ 1,737,974</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 1,762,962	\$ 1,218,558	\$ 432,267	\$ 3,413,787	\$ 510,383
Rent income	-	-	138,947	138,947	-
Other	18,433	44,125	2,258	64,816	6,225
Total Operating Revenues	1,781,395	1,262,683	573,472	3,617,550	516,608
Operating Expenses:					
Personal services	748,649	577,952	357,417	1,684,018	199,835
Supplies	130,955	78,823	77,765	287,543	40,387
Other services	421,052	360,158	123,008	904,218	87,794
Depreciation	250,069	261,104	64,975	576,148	156,449
Total Operating Expenses	1,550,725	1,278,037	623,165	3,451,927	484,465
Operating Income (Loss)	230,670	(15,354)	(49,693)	165,623	32,143
Non-Operating Revenues (Expenses):					
Gain on sale of assets	-	-	1,382	1,382	9,198
Interest earned	31,269	(24,895)	1,486	7,860	15,680
Interest expenses	-	(103,631)	(7,128)	(110,759)	-
Total Non-Operating Revenues	31,269	(128,526)	(4,260)	(101,517)	24,878
Net Income (Loss) Before Transfers	261,939	(143,880)	(53,953)	64,106	57,021
Operating Transfers In (Out):					
Transfers from other funds	-	144,100	-	144,100	-
Transfers to other funds	(1,193,100)	(49,000)	-	(1,242,100)	(414,355)
	(1,193,100)	95,100	-	(1,098,000)	(414,355)
Net Income (Loss)	(931,161)	(48,780)	(53,953)	(1,033,894)	(357,334)
Net Assets at beginning of year	8,185,450	4,783,447	1,315,625	14,284,522	2,095,308
Net Assets end of year	\$ 7,254,289	\$ 4,734,667	\$ 1,261,672	\$ 13,250,628	\$ 1,737,974

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Funds
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 1,739,946	\$ 1,275,453	\$ 573,724	\$ 3,589,123	\$ -
Cash receipts from interfund services	-	-	-	-	516,608
Cash payments to suppliers	(453,167)	(168,765)	(175,401)	(797,333)	(114,863)
Cash payments to employees	(773,187)	(596,634)	(374,614)	(1,744,435)	(202,554)
Net Cash Provided (Used) by Operating Activities	<u>513,592</u>	<u>510,054</u>	<u>23,709</u>	<u>1,047,355</u>	<u>199,191</u>
Cash Flows From Noncapital Financing Activities:					
Transfers from/to other funds	(1,193,100)	95,100	-	(1,098,000)	(414,355)
Cash Flows From Capital and Related Financing Activities:					
Bond payments	-	(392,734)	-	(392,734)	-
Payments on Advance	-	-	(20,095)	(20,095)	-
Bond proceeds	-	1,224,848	-	1,224,848	-
Sale of fixed assets	-	-	1,382	1,382	15,423
Acquisition and construction of capital assets	(508,436)	(1,941,300)	(56,331)	(2,506,067)	(131,774)
Net Cash Used by Capital and Related Financing Activities	<u>(508,436)</u>	<u>(1,109,186)</u>	<u>(75,044)</u>	<u>(1,692,666)</u>	<u>(116,351)</u>
Cash Flows From Investing Activities:					
Redemption (purchase) of investments	887,825	397,096	(220,000)	1,064,921	(85,245)
Interest earned	74,889	10,151	1,486	86,526	24,170
Net Cash Provided by Investing Activities	<u>962,714</u>	<u>407,247</u>	<u>(218,514)</u>	<u>1,151,447</u>	<u>(61,075)</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(225,230)	(96,785)	(269,849)	(591,864)	(392,590)
Cash and Cash Equivalents at Beginning of Year	<u>228,449</u>	<u>98,129</u>	<u>270,929</u>	<u>597,507</u>	<u>394,814</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,219</u>	<u>\$ 1,344</u>	<u>\$ 1,080</u>	<u>\$ 5,643</u>	<u>\$ 2,224</u>
Reconciliation of Net Income (Loss) to:					
Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$ 230,670	\$(15,354)	\$(49,693)	\$ 165,623	\$ 32,143
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	250,069	261,104	64,975	576,148	156,449
Change in assets and liabilities:					
Receivable	(41,449)	12,770	-	(28,679)	-
Prepays and deposits	(9,115)	(7,661)	(5,748)	(22,524)	(4,954)
Inventory	-	-	6,336	6,336	-
Accounts payable/accrued expenses	22,176	212,093	(15,944)	218,325	(26,910)
Due to other funds	61,241	47,102	23,531	131,874	42,463
Deferred revenue	-	-	252	252	-
Net Cash Provided (Used) By Operating Activities	<u>\$ 513,592</u>	<u>\$ 510,054</u>	<u>\$ 23,709</u>	<u>\$ 1,047,355</u>	<u>\$ 199,191</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Pension and Other Employee Benefit Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 1,401,194	\$ 31,689
Investments	37,041,938	-
Receivables	232,587	433,972
Due from other funds	<u>1,411,433</u>	<u>-</u>
Total Assets	<u><u>40,087,152</u></u>	<u><u>465,661</u></u>
 LIABILITIES:		
Accrued liabilities	777,921	-
Due to other governmental units -		
Federal/state	-	63,116
Local	<u>-</u>	<u>402,545</u>
Total Liabilities	<u><u>777,921</u></u>	<u><u>465,661</u></u>
 NET ASSETS:		
Held in trust for pension benefits	<u><u>39,309,231</u></u>	

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Pension and Other Employee Benefit Trust Funds
Additions:	
Contributions	
Member contributions	\$ 228,379
Employer contributions	<u>2,350,055</u>
Total Contributions	<u>2,578,434</u>
Investment income	
Interest/Dividends	1,427,124
Unrealized gain (loss)	1,245,257
Gain (loss) on sale of investments	<u>1,041,000</u>
Net investment income	<u>3,713,381</u>
Total Additions	<u>6,291,815</u>
Deductions:	
Retirement benefit payments	1,617,315
Health insurance	301,572
Vested benefits	1,046
Professional fees	187,390
Miscellaneous	<u>13,117</u>
Total Deductions	<u>2,120,440</u>
Net Increase (Decrease)	4,171,375
Net assets held in trust for pension benefits	
Beginning of year	<u>35,137,856</u>
End of year	<u>\$ 39,309,231</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The City of Marysville, Michigan was incorporated in 1924, under the provisions of Act 279, P.A. of 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter, including public safety (police, fire, civil defense, and inspections), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

BLENDED COMPONENT UNIT -

CITY OF MARYSVILLE BUILDING AUTHORITY - was formed for the purpose of constructing and renovating various Municipal buildings. The main function of the Authority at the present time is to pay off debt. The five (5) member Board is appointed by the Mayor with the City Council confirmation and the City is fiscally responsible for the Authority. As a result, the Authority has been included as a blended component unit.

DISCRETELY PRESENTED COMPONENT UNIT –

MARYSVILLE HOUSING COMMISSION - is a nonprofit entity established pursuant to the Authority of Act 18 of the Public Act of 1933, as amended, which is governed by a five (5) member board appointed by the City Manager. This is a legally separate entity, but is considered a component unit due to the City's ability to influence the Housing Commissions actions through representative on the Housing Commission Board and because of their financial relationship.

The audit of the Housing Commission's financial statements was not completed therefore the Housing Commission has not been included in these financial statements, as required by accounting principles generally accepted in the United States of America. As a result, the auditor's opinion has been appropriately qualified.

Once completed, the audited financial statements of the Marysville Housing Commission, may be obtained at the following location:

Marysville Housing Commission
1100 New York
Marysville, Michigan 48040

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF MARYSVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Motor Vehicle Highway Fund – is a capital project fund used to account for taxes and other related revenues restricted for street and highway construction and improvements.

The City reports the following major proprietary funds:

Water Supply System Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Golf Course Fund – is used to account for the operations and activities of operating the City owned golf course.

Additionally, the City reports the following fund types –

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Funds – are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

Capital Projects Fund – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

Internal Service Fund – is used to account for the costs of operating and maintaining the City’s motor pool. Charges are made to other funds based on equipment used.

Pension Trust and Other Employee Trust Funds – are used to accumulate resources for pension , health benefits, and vested vacation and sick for qualified employees.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise and Internal Services Funds are charges to customers for sale and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition. The investment trusts have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchanges are value at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

CITY OF MARYSVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property the receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar –

The City’s property tax is levied as of July 1 on the assessed valuation of property located in the City as of the preceding December 31. The taxes are due on July 31 with final collection date as of February 28, after which they are added to the delinquent tax roll. The city also collects taxes for other governmental units which are recorded in the tax fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Buildings	7-50
Building Improvements	7-50
Land improvements	7-40
Utility systems	10-50
Machinery and equipment	3-20
Bikepaths	30
Vehicles	3-10
Sidewalks	30
Streets	20-30

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Employees Vacation and Sick Pay Fund.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF MARYSVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

In January the department heads/responsible individuals are provided various information to prepare the budgets for their department, which are due at the end of January. The City Manager and Finance Director assembles each of the department budgets and prepares one tentative overall budget. The budget is presented to the City Council in April for review. The City Council holds a public hearing and may make any revisions which, in their opinion and as a result of the public hearing, is necessary.

The general fund budget was approved at the functional level and the activity level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund which was in excess of the amount appropriated as follows:

Excess of Expenditures Over Appropriations –

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund –			
Public Safety –			
Building Inspection	\$ 161,363	\$ 162,214	\$ 851
Other	-	28,707	28,707
Special Revenue –			
Major Street Fund –			
Routine Maintenance	156,811	160,725	3,914
Administrative/Engineering	22,017	24,480	2,463
Local Street Fund –			
Routine Maintenance	265,903	334,331	68,425

In addition budgets were not adopted for two special revenue funds, Drug Law Enforcement and Industrial Aid Funds.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS:

At year end, the carrying amount of the City Reporting Entity's deposits and investments is \$50,171,590 as follows:

	<u>Primary Government</u>	<u>Fiduciary Unit</u>	<u>Reporting Entity</u>
Cash on Hand -			
Petty cash and cash on hand	\$ 2,233	\$ -	\$ 2,233
Deposits with Financial Institutions -			
Checking/Money Market	26,039	117,264	143,303
Savings/Certificates of Deposit	<u>4,136</u>	<u>1,315,619</u>	<u>1,319,755</u>
Total Deposits	<u>32,408</u>	<u>1,432,883</u>	<u>1,465,291</u>
Investments -			
Marketable CD's	2,796,546	789,578	3,586,124
U.S. Government Securities	8,868,175	8,961,730	17,829,905
Commercial Paper	-	1,565,431	1,565,431
Convertible Securities	-	151,200	151,200
Stocks	-	19,966,182	19,966,182
Corporate Bonds	<u>-</u>	<u>5,607,817</u>	<u>5,607,817</u>
Total Investments	<u>11,664,721</u>	<u>37,041,938</u>	<u>48,706,659</u>
Grand Total	<u>\$11,697,129</u>	<u>\$ 38,474,821</u>	<u>\$ 50,171,950</u>

Reconciliation To Combined Balance Sheet

Reported as Cash and Cash Equivalents -			
Petty Cash and Cash On Hand	2,233	-	2,233
Cash in Checking/Money Market	26,039	117,264	143,303
Cash in Saving	<u>4,136</u>	<u>1,315,619</u>	<u>1,319,755</u>
Total Cash and Cash Equivalents			
Reported on Combined Balance Sheet	<u>32,408</u>	<u>1,432,883</u>	<u>1,465,291</u>
Reported as Investments -			
Marketable CD's	2,796,546	789,578	3,586,124
U.S. Government Securities	8,868,175	8,961,730	17,829,905
Commercial Paper	-	1,565,431	1,565,431
Convertible Securities	-	151,200	151,200
Stocks	-	19,966,182	19,966,182
Corporate Bonds	<u>-</u>	<u>5,607,817</u>	<u>5,607,817</u>
Total Investments Reported on			
Combined Balance Sheet	<u>11,664,721</u>	<u>37,041,938</u>	<u>48,706,659</u>
Grand Total - Combined Balance Sheet	<u>\$11,697,129</u>	<u>\$ 38,474,821</u>	<u>\$ 50,171,950</u>

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

Deposits –

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2004 the bank balance of the City's deposits were \$1,657,546 of which \$100,000 was FDIC insured with the balance \$1,557,546 uninsured and uncollateralized.

Investments -

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Cash and investments of the City's retirement system, health care fund and employee vacation and sick pay fund are subject to the requirements of the Public Employee Retirement System Investments Act (MCL 38.1132).

City investments can be classified into three categories to give an indication of the level of risk assumed by the City. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent but not in the City's name.

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

	Categories			Carrying/Fair Value
	1	2	3	
<u>Primary Government</u>				
Marketable CD's	\$ 2,796,546	\$ -	\$ -	\$ 3,259,616
U.S. Government securities (at cost net of unamortized premiums and discounts	<u>8,868,175</u>	<u>-</u>	<u>-</u>	<u>6,791,925</u>
Total Primary Government	<u>11,664,721</u>	<u>-</u>	<u>-</u>	<u>10,051,541</u>
<u>Fiduciary Unit</u>				
Marketable CD's	789,578	-	-	789,578
Commercial Paper	1,565,431	-	-	1,564,431
U.S. Government Securities (at cost net of unamortized premiums and discounts	8,961,730	-	-	8,961,730
Corporate Bonds (at cost net of unamortized discounts	-	-	5,607,817	5,607,817
Stocks (at cost)	-	-	19,966,182	19,966,182
Convertible Securities	<u>-</u>	<u>-</u>	<u>151,200</u>	<u>151,200</u>
Total Fiduciary Unit	<u>11,316,739</u>	<u>-</u>	<u>25,725,199</u>	<u>37,041,938</u>
Total Reporting Entity	<u>\$ 22,981,460</u>	<u>\$ -</u>	<u>\$ 25,725,199</u>	<u>\$ 48,706,659</u>

NOTE 4 – RECEIVABLES:

Receivables in the governmental and business type activities are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Property Taxes	\$ 161,570	\$ -
Interest and accounts	101,263	564,572
Special Assessments	47,296	-
Intergovernmental – Federal/State	254,937	-
Local	<u>34,988</u>	<u>-</u>
	600,054	564,572
Less – allowance for uncollectible	<u>(137,000)</u>	<u>-</u>
	<u>\$ 463,054</u>	<u>\$ 564,572</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 4 – RECEIVABLES – (cont'd):

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund –		
Property taxes	\$ 21,353	\$ -
Motor Vehicle Highway –		
Property taxes	2,278	-
Non-Major Governmental Funds –		
Property taxes	939	-
Special Assessments	<u>37,192</u>	<u>-</u>
Total deferred/unearned receivables to governmental funds	<u>\$ 61,762</u>	<u>\$ -</u>

NOTE 5 – CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2004 was as follows:

	Adjusted July 1, 2003 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2004 <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 993,932	\$ 15,000	\$ -	\$ 1,008,932
Construction in progress	<u>220,576</u>	<u>497,194</u>	<u>220,576</u>	<u>497,194</u>
Total capital assets, not being depreciated	<u>1,214,508</u>	<u>512,194</u>	<u>220,576</u>	<u>1,506,126</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 5 – CAPITAL ASSETS – (cont'd):

	Adjusted July 1, 2003 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2004 <u>Balance</u>
Capital assets, being depreciated:				
Buildings	\$ 6,052,486	\$ -	\$ -	\$ 6,052,486
Building improvements	422,388	60,234	-	482,622
Land improvements	1,191,192	415,312	169,762	1,606,504
Machinery and equipment	2,213,566	191,882	-	2,235,685
Vehicles	1,323,831	-	-	1,323,831
Bikepaths	360,161	-	-	360,161
Sidewalks	1,961,410	75,987	-	2,037,397
Streets	<u>32,447,358</u>	<u>637,317</u>	<u>-</u>	<u>33,084,675</u>
Total capital assets being depreciated	<u>45,972,392</u>	<u>1,380,732</u>	<u>169,763</u>	<u>47,183,361</u>
Less accumulated depreciation for:				
Buildings	1,755,234	110,525	-	1,865,759
Building improvements	172,388	46,951	-	219,339
Land improvements	730,431	123,453	-	853,884
Machinery and equipment	1,197,155	228,314	153,198	1,272,271
Vehicles	931,798	115,486	-	1,047,234
Bikepaths	45,154	12,004	-	57,158
Sidewalks	1,221,309	69,473	-	1,290,782
Streets	<u>18,535,187</u>	<u>1,542,984</u>	<u>-</u>	<u>20,078,171</u>
Total accumulated depreciation	<u>24,588,606</u>	<u>2,249,190</u>	<u>153,198</u>	<u>26,684,598</u>
Total capital assets being depreciated, net	<u>21,383,786</u>	<u>(863,458)</u>	<u>16,565</u>	<u>20,498,763</u>
Governmental activities capital assets, net	<u>\$ 22,598,294</u>	<u>\$(356,264)</u>	<u>\$ 237,141</u>	<u>\$22,004,889</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 91,500	\$ -	\$ -	\$ 91,500
Land improvements	532,370	46,237	-	578,607
Construction in progress	<u>361,387</u>	<u>1,614,197</u>	<u>66,653</u>	<u>1,908,931</u>
Total capital assets, not being depreciated	<u>985,257</u>	<u>1,660,434</u>	<u>66,653</u>	<u>2,579,038</u>
Capital assets, being depreciated:				
Buildings	6,350,635	59,416	-	6,410,051
Building improvements	372,790	-	-	372,790
Water and sewer systems	13,582,881	506,164	-	14,089,045
Machinery and equipment	<u>1,511,167</u>	<u>346,706</u>	<u>15,188</u>	<u>1,842,685</u>
Total capital assets being depreciated	<u>21,817,473</u>	<u>912,286</u>	<u>15,188</u>	<u>22,714,571</u>
Less accumulated depreciation for:				
Buildings	3,246,399	132,770	-	3,379,169
Building improvements	192,700	18,119	-	210,819
Water and sewer systems	3,262,144	288,909	-	3,551,053
Machinery and equipment	<u>888,717</u>	<u>136,350</u>	<u>15,188</u>	<u>1,009,879</u>
Total accumulated depreciation	<u>7,589,960</u>	<u>576,148</u>	<u>15,188</u>	<u>8,150,920</u>
Total capital assets being depreciated, net	<u>14,227,513</u>	<u>(336,138)</u>	<u>-</u>	<u>14,563,651</u>
Business activities capital assets, net	<u>\$15,212,770</u>	<u>\$ 1,996,572</u>	<u>\$ 66,653</u>	<u>\$ 17,142,689</u>

CITY OF MARYSVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 – CAPITAL ASSETS – (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 62,158
Public Safety	246,720
Health and Welfare	1,759,446
Recreation and Cultural	<u>24,417</u>
Total depreciation expense-governmental activities	<u>\$2,092,741</u>
Business-type activities:	
Golf Commission	\$ 64,975
Water Fund	250,069
Sewer Fund	<u>261,108</u>
Total depreciation expense-business-type activities	<u>\$ 576,148</u>

In addition there was depreciation of \$156,449 in the Motor Pool Fund.

NOTE 6 – PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable/accrued liabilities	\$ 471,337	\$ 476,585
Accrued wages and fringe benefits	<u>192,918</u>	<u>376</u>
	<u>\$ 664,255</u>	<u>\$ 476,961</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of June 30, 2004:

<u>Due To/From Other Funds – Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	City Employees Retirement	\$ 20,897
	1965 Police and Fire Retirement	<u>18,574</u>
		39,471
Fiduciary Funds –		
1965 Police and Fire Retirement	General Fund	285,362
City Employees Retirement	General Fund	160,308
	Golf Course Fund	23,085
	Water fund	76,949
	Wastewater Fund	61,560
	Motor Pool Fund	38,475
Employees vacation/sick pay	General Fund	542,138
	Recreation Fund	37,922
	Motor Pool Fund	29,735
	Water Fund	63,037
	Golf Course Fund	40,332
	Wastewater Fund	<u>52,530</u>
		<u>1,411,433</u>
Total		<u>\$ 1,450,904</u>

Due To/From Primary Government & Component Units -

General Fund	Housing Commission	<u>\$ 25,919</u>
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Since the Housing Commission is not included in these statements there is no offsetting liabilities.

Advance To/From Other Funds –

General Fund	Golf Course	<u>\$ 278,067</u>
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CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS

Transfers From/To Other Funds -

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Special Assessment District #45	\$ 24,952
Major Street Fund	Motor Vehicle Highway Fund	18,500
Local Street Fund	Major Street Fund	291,500
	Motor Vehicle Highway Fund	50,000
	Public Improvement Fund	78,500
Parks and Recreation Fund	General Fund	270,712
Building Authority Fund	General Fund	62,416
	Building Authority Fund –	
	Capital Projects	5,011
	Wastewater Fund	49,000
	Water Fund	49,000
	Motor Vehicle Fund	49,000
Wastewater Fund	Water Fund	<u>144,100</u>
Total Transfers		<u>\$1,102,691</u>

There was also a transfer from the Water Fund and Motor Pool Fund of \$1,000,000 and \$365,355, respectively, that has been recorded in the Pension Health Care Fund as employer contributions.

NOTE 8 - LONG-TERM DEBT:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term debt (including current portions) for the year ended June 30, 2004:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Governmental Fund -					
Building Authority Bonds	<u>\$ 2,825,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 2,750,000</u>	<u>\$ 100,000</u>
<u>Business Activities:</u>					
Enterprise Funds –					
Wastewater Fund –					
Michigan Municipal Bond					
Authority Wastewater Loans -					
Phase I 1993	1,400,000	-	115,000	1,285,000	115,000
Phase II 1996	3,110,000	-	180,000	2,930,000	185,000
Clean Water Program					
2003	-	1,224,848	-	1,224,848	-
Total Business Activities	<u>4,510,000</u>	<u>1,224,848</u>	<u>295,000</u>	<u>5,439,848</u>	<u>300,000</u>
Total Entity Primary Government	<u>\$ 7,335,000</u>	<u>\$1,224,848</u>	<u>\$ 370,000</u>	<u>\$ 8,189,848</u>	<u>\$ 400,000</u>

CITY OF MARYSVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8 - LONG-TERM DEBT - (cont'd):

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Building Authority Bonds in the amount of \$3,225,000 were issued on October 1, 1996 for the purpose of constructing the Police/Fire Station and the purchase of the DPW Building. The bonds are due in annual installments increasing from \$75,000 to \$250,000 through October 1, 2021, plus interest ranging from 4.875 to 7.875 percent, payable semi-annually \$ 2,750,000

Michigan Municipal Board Authority Wastewater Loans were obtained for the purpose of separating the City's sanitary and storm sewer system. The debt and related interest is being repaid through operating revenues of the wastewater fund.

The Phase I loan in the original amount of \$2,375,181 is due in annual installments ranging from \$30,000 to \$135,000 through October 1, 2014, plus interest of 2.0 percent, payable semi-annually \$ 1,285,000

The Phase II loan in the original amount of \$3,950,000 is due in annual installments ranging from \$180,000 to \$240,000 through October 1, 2018, plus interest of 2.25 percent, payable semi-annually 2,930,000

The Clean Water Program Loan for the purpose of eliminating discharge into the St. Clair River in the original amount of \$2,550,000 is due in annual installments ranging from \$100,000 to \$160,000 through October 1, 2024, plus interest of 2.50% payable semi-annually. As of June 30, 2004 only \$1,324,848 had been drawn 1,224,848

\$ 5,439,848

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2004 (excluding vacation and sick and the Clean Water Program loan since the full amount of the loan has not been drawn and a repayment schedule determined) are as follows:

Year Ending June 30.	Building Authority Bonds		Municipal Bond Authority Loans	
	Principal	Interest	Principal	Interest
2005	100,000	141,225	300,000	88,394
2006	100,000	133,363	305,000	81,881
2007	100,000	126,988	310,000	75,263
2008	100,000	122,038	315,000	68,531
2009	100,000	117,013	320,000	61,694
2010	125,000	111,269	325,000	54,750
2010-2022	<u>2,125,000</u>	<u>716,919</u>	<u>2,340,000</u>	<u>189,025</u>
	<u>\$ 2,750,000</u>	<u>\$ 1,468,815</u>	<u>\$ 4,215,000</u>	<u>\$ 619,538</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 9 – RETIREMENT PLANS:

The City has three single employee defined benefit retirement plans covering substantially all employees as follows:

General City Employees Retirement System
Police Officers and Firefighters Retirement System – 1940 Plan
Police Officers and Firefighters Retirement System – 1965 Plan

Plan Descriptions

General City Employee Retirement System -

General City Employees Retirement System – was established by City Council in 1945 for the purpose of continuing and providing retirement income to certain employees and retired employees and survivor benefits to their eligible beneficiaries. The system is administered, managed and operated by a five (5) member board of trustees, which is composed of the Mayor of the City of Marysville, one (1) council member selected by the City Council, a citizen who is not a member and two (2) members of the retirement system.

The membership at July 1, 2003 was comprised of 53 active participants, 37 retirees and beneficiaries, and 4 other inactive participants.

In general all employees are eligible for retirement on attainment of age 60/62 and 5 years of service or age 55 and 25 years of service. The annual normal pension payable is equal to 2.25% of final average compensation multiplied by the number of years of credited service.

Police Officers and Firefighters System – 1940 Plan –

The Police Officers and Firefighters Retirement System – 1940 Plan was established by City Charter in 1940 to provide retirement for police and firefighters and their beneficiaries with twenty-five (25) years of service. In general any member who retired is entitled to one-half of the pay of the rank in which such member was serving at the time of retirement, and in the event of change of rank at any time thereafter, in said rate of pay, then at the rate of one-half of the pay of said rank so changed.

The plan was superseded by the 1964 plan and as of June 30, 2004 there was only one (1) retiree (beneficiary) receiving benefits.

Police Officers and Firefighters Retirement System – 1964 Plan -

The Police Officers and Firefighters Retirement System – 1965 Plan was established by City Charter in 1965 for the purpose of providing pensions for Police Officers and Firefighters who retire on account of superannuation or total and permanent disability, and to provide survivor pensions to certain dependents. The system is administered, managed and operated by a five (5) member board of trustees, which is comprised of the Mayor or his appointee (must be a Council member) one (1) council members selected by the City Council, a citizens who is not a member, one (1) police officer member and one (1) firefighter member.

The membership at July 1, 2003 was comprised of 27 active participants, 18 retirees and beneficiaries, and 1 other inactive participant.

CITY OF MARYSVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 9 – RETIREMENT PLANS – (cont'd):

In general all employees are eligible for normal retirement on attainment of age 55 and 5 years of service. The annual normal pension payable is equal to 2.5% for final salary multiplied by the number of years of credited service, subject to a maximum of 25 years, plus 2% of final average salary multiplied by the number of years of credited service in excess of 25 years.

Summary of Significant Accounting Policy -

Basis of Accounting -

The plans utilize the accrual basis of accounting and is reported within the City's reporting entity as separate Pension Trust Funds. Contributions from employees are recognized as revenues in the period in which employees provide the services.

Method Used to Value Investments -

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchanges are valued at the last reported sales at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Contributions and Funding Policy

Participants of the General City Employees Retirement System and the Police Officers and Fire Retirement System – 1965 plan contribute 5% of compensation with the remaining amount contributed by the City based on a actuarially determined amounts. There is no member contribution for the Police Officers and Firefighters Retirement System – 1940 plan. The City contributes to this plan on a pay as you go method.

General City Employee Retirement System -

For fiscal 2004 the actuarially determined contribution was \$365,510 (15.89% of covered payroll).

The required contribution was determined as part of the July 1, 2003 actual valuation using the actuarial cost method. The actual assumptions include (a) a rate of return of 8.0% (b) projected salary increases of 4.09 per year, and (c) the 1989 Buck Mortality Table.

Schedule of Employer Contribution

<u>Fiscal Year</u> <u>Ending</u> <u>June 30.</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2002	30,650	100	-
2003	153,461	100	-
2004	365,510	100	-

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9 – RETIREMENT PLANS – (cont'd):

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	UAAL Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2001	17,335,570	16,242,162	(1,093,408)	106.73	2,108,013	(51.87)
2002	17,040,860	16,746,879	(293,981)	101.76	2,252,770	13.05
2003	16,803,758	17,831,503	1,027,795	94.24	2,300,897	44.67

Police Officers and Firefighters Retirement System – 1964 Plan –

For fiscal 2004 the actuarially determined contribution was \$289,907 (16.73% of covered payroll).

The required contribution was determined as part of the July 1, 2003 actual valuation using the actuarial cost method. The actual assumptions include (a) a rate of return of 8.0% (b) projected salary increases of 4.00 per year, and (c) the 1989 Buck Mortality Table.

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	UAAL Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2001	15,580,355	14,246,713	(1,333,642)	109.36	1,682,405	(79.27)
2002	15,052,172	14,574,723	(477,449)	103.28	1,645,893	(29.01)
2003	14,578,126	15,195,489	617,363	95.94	1,733,318	35.62

Schedule of Employer Contributions

<u>Year Ended June 30.</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2002	-	100
2003	130,371	100
2004	289,907	100

Police Officers and Firefighters Retirement System – 1940 Plan -

Schedule of Employer Contributions

<u>Year Ended June 30.</u>	<u>Annual Contribution</u>
2002	33,550
2003	34,625
2004	35,665

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10 – POST RETIREMENT BENEFITS:

The City provides health and life insurance benefits to most of the retirees in Note 9. The City funds the benefits on the pay-as-you-go method which amounted to \$293,618 for fiscal 2004. In addition, the City has established a Pension Health Care Fund to accumulate resources to fund a portion of the unfunded benefit. An actuarial report is commissioned by the City Council at least once every five years to see the City's progress in funding the benefit.

NOTE 11 - DEFERRED COMPENSATION:

The City offers their employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

A trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

NOTE 12 - FUND EQUITY:

RESERVED FUND BALANCE -

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of Reserved Fund Balance at June 30, 2004:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Fire	\$ 5,253
	Historical	1,920
	DARE	18,684
	Bike Rodeo	2,093
	Police Training	2,133
	Advance to Other Funds	278,067
	Prepaid Expense	<u>164,337</u>
		<u>472,487</u>
Motor Vehicle Highway	Capital Projects	<u>465,070</u>
Nonmajor Funds		
Parks and Recreation	Millage	35,063
	Prepaid Expense	6,213
Building Authority	Capital Projects	532,372
Local Improvement		
and Revolving	Capital Projects	118,242
Cemetery Perpetual Care	Perpetual Care	<u>286,865</u>
		<u>978,755</u>
		<u>1,916,312</u>

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 12 - FUND EQUITY – (cont'd):

DESIGNATED FUND BALANCE -

The City Council has the power to designate, or set aside, all or a portion of the unreserved Fund Balance for specified purpose. The following is a summary of designated fund balance at June 30, 2004:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Library Improvements	\$ 16,105
	New Equipment	30,000
	Building Improvements	203,850
	Industrial/Commercial Development	17,618
	EMS Equipment	<u>493,053</u>
		760,626
Parks and Recreation	Recreation Projects	<u>19,645</u>
		<u>\$ 780,271</u>

Retained Earnings –

The City has designated, or set aside, a portion of the unreserved retained earnings for specific purposes. The following is a summary of the designated retained earnings at June 30, 2004

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Water Fund	Tank Repair	\$ 38,000
Golf Course Fund	Fringe Benefits	<u>50,000</u>
		88,000
Motor Pool Fund	Refuse Truck	<u>146,000</u>
		<u>\$ 234,000</u>

NOTE 13 – RISK MANAGEMENT:

General Liability and Property

The City participates in the Michigan Municipal League Liability and Property Pool insurance plan. In general the City carries \$10,000,000 of liability coverage and approximately \$32,000,000 of property insurance with a \$1,000 per claim deductible on property and \$0 on liability.

Workers Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The fund provides coverage of workers compensation claims subjected to a maximum of \$500,000 per occurrence.

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 13 – RISK MANAGEMENT – (cont'd):

Health Insurance

The City is self-insured for health care benefits with the administration services of the program performed on a contractual basis by a third party. The City pays claims up to \$75,000 per contract per contract year. Stop-loss insurance has been purchased to insure the City against losses in excess of these limits. Based on past history, the City has estimated the accrued health care claims, including estimated claims incurred but not reported (IBNR), of \$80,000 at June 30, 2004. Because a majority of this liability will be paid within 60 days it has been recorded as a liability within the funds.

Changes in the balance of claims liability during the past year is as follows:

Unpaid claims, beginning of year	\$ -
Incurred claims (including IBNR)	1,022,260
Claims Paid	<u>(942,260)</u>
Unpaid claims, end of year	<u>\$ 80,000</u>

NOTE 14 – CONTINGENT LIABILITIES:

One of the Cities major taxpayers, the Detroit Edison, is appealing its tax assessment on the Edison plant located in the City for the 2003 tax levy (they are also appealing the 2004 tax assessment that was billed on July 1, 2004). The taxpayer has paid the contested amount. Should the taxpayer prevail, the City would be required to refund approximately \$235,619 plus interest for 2003 levy (the July 1, 2004 amount would be similar).

In addition the Detroit Edison and SEMCO Gas Co., are appealing a number of its personal property tax assessments for the years 1997 to 2003, some of which has been paid and some of which has not. A considerable portion of the difference is a result of the "multipliers" utilized in the personal property tax assessment. Should the taxpayers prevail, the City would be required to refund approximately \$163,000.

The City intends to vigorously defend the original assessments. Due to the inconclusive nature of the appeal it is impossible to estimate any potential liability, if any.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARYSVILLE, MICHIGAN

**REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE RETIREMENT SYSTEM**

GENERAL CITY EMPLOYEES RETIREMENT SYSTEM

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/94	\$ 8,639,945	\$ 7,960,198	\$ (679,747)	108.54%	\$ 1,601,036	-42.46%
07/01/95	9,146,510	10,078,549	932,039	90.75%	1,650,539	56.47%
07/01/96	10,048,696	10,971,000	922,304	91.59%	1,780,992	51.79%
07/01/97	11,808,717	11,754,168	(54,549)	100.46%	1,906,874	-2.86%
07/01/98	13,686,707	12,734,370	(952,337)	107.48%	1,916,506	-49.69%
07/01/99	15,648,850	14,034,351	(1,614,499)	111.50%	1,975,246	-81.74%
07/01/00	16,941,119	15,032,094	(1,909,025)	112.70%	1,994,771	-95.70%
07/01/01	17,335,570	16,242,162	(1,093,408)	106.73%	2,108,013	-51.87%
07/01/02	17,040,860	16,746,879	(293,981)	101.76%	2,252,770	-13.05%
07/01/03	16,803,758	17,831,503	1,027,745	94.24%	2,300,897	44.67%

Schedule of Employer Contributions

Year Ended 30-Jun	Annual Required Contributions	Percentage Contributed
1995	\$ 53,575	254.30%
1996	309,799	48.00%
1997	324,245	89.80%
1998	197,841	184.70%
1999	58,044	186.30%
2000	-	100.00%
2001	-	100.00%
2002	30,650	100.00%
2003	153,461	100.00%
2004	365,510	100.00%

CITY OF MARYSVILLE, MICHIGAN

**REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE RETIREMENT SYSTEM**

POLICE OFFICERS AND FIREFIGHTERS RETIREMENT SYSTEM

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
07/01/94	\$ 8,211,686	\$ 8,026,189	\$ (185,497)	102.31%	\$ 1,108,641	-16.73%
07/01/95	8,757,556	9,109,618	352,062	96.14%	1,187,562	29.65%
07/01/96	9,565,878	9,303,476	(262,402)	102.82%	1,264,256	-20.76%
07/01/97	11,156,747	10,098,786	(1,057,961)	110.48%	1,317,298	-80.31%
07/01/98	12,788,100	10,635,002	(2,153,098)	120.25%	1,303,449	-165.18%
07/01/99	14,447,397	11,899,712	(2,547,685)	121.41%	1,405,018	-181.33%
07/01/00	15,473,531	13,310,991	(2,162,540)	116.25%	1,436,920	-150.50%
07/01/01	15,580,355	14,246,713	(1,333,642)	109.36%	1,682,405	-79.27%
07/01/02	15,052,172	14,574,723	(477,449)	103.28%	1,645,893	-29.01%
07/01/03	14,578,126	15,195,489	617,363	95.94%	1,733,318	35.62%

Schedule of Employer Contributions

<u>Year Ended 30-Jun</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
1995	\$ 176,779	56.60%
1996	98,093	201.00%
1997	-	100.00% *
1998	-	100.00%
1999	-	100.00%
2000	-	100.00%
2001	-	100.00%
2002	-	100.00%
2003	130,371	100.00%
2004	289,907	100.00%

* Actual contributions made for 1997 was \$138,938

CITY OF MARYSVILLE, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 4,881,411	\$ 5,014,053	\$ 132,642
Licenses and permits	194,000	299,536	105,536
Intergovernmental -			
Federal	-	34,004	34,004
State	1,096,500	1,098,369	1,869
Charges for services	229,211	244,662	15,451
Fines and forfeits	25,000	25,821	821
Interest and rents	219,994	144,944	(75,050)
Other	19,100	39,510	20,410
	<u>6,665,216</u>	<u>6,900,899</u>	<u>235,683</u>
Expenditures:			
General Government -			
Legislative	10,800	5,680	5,120
City Manager	152,851	144,419	8,432
City Clerk	298,529	283,394	15,135
Board of Review	2,640	1,167	1,473
Cemetery	88,700	68,890	19,810
Community Development	87,038	58,956	28,082
General administration	222,145	205,137	17,008
	<u>862,703</u>	<u>767,643</u>	<u>95,060</u>
Less: Reimbursement from other funds	(378,841)	(236,875)	(141,966)
Total General Government	<u>483,862</u>	<u>530,768</u>	<u>(46,906)</u>
Public Safety -			
Fire department	1,006,133	973,474	32,659
Police department	1,523,962	1,498,941	25,021
Civil defense	4,450	1,546	2,904
Building Inspections	161,363	162,214	(851)
Other	-	28,707	(28,707)
	<u>2,695,908</u>	<u>2,664,882</u>	<u>31,026</u>
Public Works -			
Department of public works	690,860	674,923	15,937
Street lighting	210,000	191,843	18,157
Dial-A-Ride	94,000	93,414	586
Sanitation	431,600	427,046	4,554
	<u>1,426,460</u>	<u>1,387,226</u>	<u>39,234</u>

Continued

CITY OF MARYSVILLE, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	Original/ Final Budget	Actual	Variance with Final Budget Postive (Negative)
Recreational and Cultural-			
Parks	\$ 226,750	\$ 174,506	\$ 52,244
Beautification committee	19,720	11,939	7,781
Library	68,501	43,646	24,855
Historical commission	51,950	28,029	23,921
	<u>366,921</u>	<u>258,120</u>	<u>108,801</u>
Other	<u>\$ 1,647,637</u>	<u>\$ 1,437,616</u>	<u>210,021</u>
Capital Outlay	<u>83,100</u>	<u>67,313</u>	<u>15,787</u>
Total Expenditures	<u>6,703,888</u>	<u>6,345,925</u>	<u>357,963</u>
Excess of revenues over (under) expenditures	<u>(38,672)</u>	<u>554,974</u>	<u>593,646</u>
Other Financing Sources (Uses):			
Transfers In			
Special Assessment District #45	-	24,952	24,952
Transfer Out-			
Recreation	(273,891)	(270,712)	3,179
Building Authority	(64,416)	(62,416)	2,000
	<u>(338,307)</u>	<u>(308,176)</u>	<u>30,131</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(376,979)</u>	<u>246,798</u>	<u>623,777</u>
Fund Balance at beginning of year	<u>4,368,391</u>	<u>4,368,391</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 3,991,412</u>	<u>\$ 4,615,189</u>	<u>\$ 623,777</u>

Concluded

SUPPLEMENTARY INFORMATION

CITY OF MARYSVILLE, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	Special Revenue Funds		
	Major Street	Local Street	Drug Law Enforcement
ASSETS			
Cash and cash equivalents	\$ 1,116	\$ 2,701	\$ 3,747
Investments	390,000	207,000	-
Receivables -			
Current and delinquent property taxes	-	-	-
Accounts and interest	-	-	-
Special Assessments	-	-	-
Due from other governmental units -			
Federal/State	77,133	30,713	-
Local	-	-	-
Prepaid expenditures and deposits	-	-	-
Total Assets	<u>\$ 468,249</u>	<u>\$ 240,414</u>	<u>\$ 3,747</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 4,989	\$ 2,463	\$ -
Accrued liabilities	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Total Liabilities	<u>4,989</u>	<u>2,463</u>	<u>-</u>
Fund Balance:			
Reserved -			
Prepays	-	-	-
Capital Projects	-	-	-
Millage	-	-	-
Permanent Fund			
Expendable	-	-	-
Nonexpendable	-	-	-
Unreserved -			
Designated	-	-	-
Undesignated	463,260	237,951	3,747
Total Fund Balance	<u>463,260</u>	<u>237,951</u>	<u>3,747</u>
Total Liabilities and Fund Balance	<u>\$ 468,249</u>	<u>\$ 240,414</u>	<u>\$ 3,747</u>

Special Revenue Funds				Debt Service Fund
Public Improvement	Industrial Development	Parks and Recreation	Industrial Aid	Building Authority
\$ 2,609	\$ 1,130	\$ 2,871	\$ 710	\$ -
401,000	301,692	65,000	5,000	-
939	-	-	-	-
-	1,379	-	-	-
47,296	-	-	-	-
-	-	-	-	-
-	-	34,988	-	-
-	-	6,213	-	-
<u>\$ 451,844</u>	<u>\$ 304,201</u>	<u>\$ 109,072</u>	<u>\$ 5,710</u>	<u>\$ -</u>
\$ 7,979	\$ -	\$ 5,355	\$ 5,710	\$ -
-	-	3,910	-	-
-	-	37,922	-	-
38,131	-	-	-	-
<u>46,110</u>	<u>-</u>	<u>47,187</u>	<u>5,710</u>	<u>-</u>
-	-	6,213	-	-
-	-	-	-	-
-	-	35,063	-	-
-	-	-	-	-
-	-	-	-	-
-	-	19,645	-	-
405,734	304,201	964	-	-
<u>405,734</u>	<u>304,201</u>	<u>61,885</u>	<u>-</u>	<u>-</u>
<u>\$ 451,844</u>	<u>\$ 304,201</u>	<u>\$ 109,072</u>	<u>\$ 5,710</u>	<u>\$ -</u>

Continued

CITY OF MARYSVILLE, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	Capital Projects Funds			Permanent Fund	Total
	Building Authority	Local Improvement and Revolving	Special Assessment District #45	Cemetery Perpetual Care	
ASSETS					
Cash and cash equivalents	\$ 3,674	\$ 3,242	\$ -	\$ 1,090	\$ 22,890
Investments	527,847	115,000	-	285,125	2,297,664
Receivables -					
Current and delinquent property taxes	-	-	-	-	939
Accounts and interest	851	-	-	650	2,880
Special assessments	-	-	-	-	47,296
Due from other governmental units -					
Federal/State	-	-	-	-	107,846
Local	-	-	-	-	34,988
Prepaid expenditures and deposits	-	-	-	-	6,213
Total Assets	\$ 532,372	\$ 118,242	\$ -	\$ 286,865	\$ 2,520,716

LIABILITIES AND FUND BALANCE

Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 26,496
Accrued liabilities	-	-	-	-	3,910
Due to other funds	-	-	-	-	37,922
Deferred revenue	-	-	-	-	38,131
Total Liabilities	-	-	-	-	106,459
Fund Balance:					
Reserved -					
Prepays	-	-	-	-	6,213
Capital Projects	532,372	118,242	-	-	650,614
Millage	-	-	-	-	35,063
Permanent Fund					
Expendable	-	-	-	93,620	93,620
Nonexpendable	-	-	-	193,245	193,245
Unreserved -					
Designated	-	-	-	-	19,645
Undesignated	-	-	-	-	1,415,857
Total Fund Balance	532,372	118,242	-	286,865	2,414,257
Total Liabilities and Fund Balance	\$ 532,372	\$ 118,242	\$ -	\$ 286,865	\$ 2,520,716

Concluded

CITY OF MARYSVILLE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Special Revenue Funds</u>		
	<u>Major Street</u>	<u>Local Street</u>	<u>Drug Law Enforcment</u>
Revenues:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental -			
Federal/State	481,434	180,714	-
Local	-	-	-
Interest and rent	2,906	637	19
Special assessment	-	-	-
Other	5,554	4,728	1,521
Total Revenues	<u>489,894</u>	<u>186,079</u>	<u>1,540</u>
Expenditures:			
Current -			
Public Safety	-	-	118
Public Works	282,353	468,996	-
Recreation and Cultural	-	-	-
Other	-	-	-
Capital Outlay	-	177,891	-
Debit Service			
Principal	-	-	-
Interest and charges	-	-	-
Total Expenditures	<u>282,353</u>	<u>646,887</u>	<u>118</u>
Excess of revenues over (under) expenditures	<u>207,541</u>	<u>(460,808)</u>	<u>1,422</u>
Other Financing Sources (Uses):			
Transfers In	18,500	420,000	-
Transfers Out	(291,500)	-	-
Total Other Financing Sources (Uses)	<u>(273,000)</u>	<u>420,000</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(65,459)</u>	<u>(40,808)</u>	<u>1,422</u>
Fund Balances at beginning of year	<u>528,719</u>	<u>278,759</u>	<u>2,325</u>
Fund Balances at end of year	<u><u>\$ 463,260</u></u>	<u><u>\$ 237,951</u></u>	<u><u>\$ 3,747</u></u>

Special Revenue Funds				Debt Service Fund
Public Improvement	Industrial Development	Parks and Recreation	Industrial Aid	Building Authority
\$ 450,148	\$ -	\$ -	\$ -	\$ -
-	-	-	693,098	-
-	-	34,988	-	-
3,164	(1,191)	1,008	4,612	-
42,024	-	-	-	-
-	-	7,970	-	-
<u>495,336</u>	<u>(1,191)</u>	<u>43,966</u>	<u>697,710</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	1,011
-	-	256,460	-	-
32,946	500	-	697,710	-
506,301	-	2,710	-	-
-	-	-	-	75,000
-	-	-	-	148,416
<u>539,247</u>	<u>500</u>	<u>259,170</u>	<u>697,710</u>	<u>224,427</u>
(43,911)	(1,691)	(215,204)	-	(224,427)
-	-	270,712	-	224,427
(78,500)	-	-	-	-
<u>(78,500)</u>	<u>-</u>	<u>270,712</u>	<u>-</u>	<u>224,427</u>
(122,411)	(1,691)	55,508	-	-
<u>528,145</u>	<u>305,892</u>	<u>6,377</u>	<u>-</u>	<u>-</u>
<u>\$ 405,734</u>	<u>\$ 304,201</u>	<u>\$ 61,885</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

CITY OF MARYSVILLE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	Capital Projects Funds			Permanent Fund	
	Building Authority	Local Improvement and Revolving	Special Assessment District #45	Cemetery Peretual Care	Total
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 450,148
Intergovernmental -					
Federal/State	-	-	-	-	1,355,246
Local	-	-	-	-	34,988
Interest and rent	(6,869)	614	1,852	18,430	25,182
Special assessment	-	-	-	-	42,024
Other	-	-	-	5,938	25,711
Total Revenues	<u>(6,869)</u>	<u>614</u>	<u>1,852</u>	<u>24,368</u>	<u>1,933,299</u>
Expenditures:					
Current -					
Public Safety	-	-	-	-	118
Public Works	4,851	-	-	-	757,211
Recreation and Cultural	-	-	-	84	256,544
Other	-	-	-	-	731,156
Capital Outlay	-	-	-	-	686,902
Debit Service					
Principal	-	-	-	-	75,000
Interest and charges	-	-	-	-	148,416
Total Expenditures	<u>4,851</u>	<u>-</u>	<u>-</u>	<u>84</u>	<u>2,655,347</u>
Excess of revenues over (under) expenditures	<u>(11,720)</u>	<u>614</u>	<u>1,852</u>	<u>24,284</u>	<u>(722,048)</u>
Other Financing Sources (Uses):					
Transfers In	-	-	-	-	933,639
Transfers Out	(15,011)	-	(24,952)	-	(409,963)
Total Other Financing Sources (Uses)	<u>(15,011)</u>	<u>-</u>	<u>(24,952)</u>	<u>-</u>	<u>523,676</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(26,731)</u>	<u>614</u>	<u>(23,100)</u>	<u>24,284</u>	<u>(198,372)</u>
Fund Balances at beginning of year	<u>559,103</u>	<u>117,628</u>	<u>23,100</u>	<u>262,581</u>	<u>2,612,629</u>
Fund Balances at end of year	<u>\$ 532,372</u>	<u>\$ 118,242</u>	<u>\$ -</u>	<u>\$ 286,865</u>	<u>\$ 2,414,257</u>

Concluded

CITY OF MARYSVILLE, MICHIGAN

**MAJOR STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
State -			
Act 51	\$ 410,000	\$ 454,266	\$ 44,266
Maintenance	-	27,168	27,168
Interest	5,000	2,906	(2,094)
Other	-	5,554	5,554
	<u>415,000</u>	<u>489,894</u>	<u>74,894</u>
Total Revenues			
Expenditures:			
Public Works-			
Routine Maintenance	156,811	160,725	(3,914)
Traffic Services Maintenance	36,955	27,007	9,948
Winter Maintenance	73,930	70,141	3,789
Administration/Engineering	22,017	24,480	(2,463)
	<u>289,713</u>	<u>282,353</u>	<u>7,360</u>
Total Expenditures			
Excess of revenues over expenditures	<u>125,287</u>	<u>207,541</u>	<u>82,254</u>
Other Financing Sources (Uses):			
Transfers in	37,000	18,500	(18,500)
Transfers out	(310,000)	(291,500)	18,500
	<u>(273,000)</u>	<u>(273,000)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(147,713)	(65,459)	82,254
Fund Balance at beginning of year	<u>528,719</u>	<u>528,719</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 381,006</u>	<u>\$ 463,260</u>	<u>\$ 82,254</u>

CITY OF MARYSVILLE, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEARS ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
State - Act 51	\$ 160,000	\$ 180,714	\$ 20,714
Interest	1,000	637	(363)
Other	-	4,728	4,728
Total Revenues	161,000	186,079	25,079
Expenditures:			
Public Works			
Routine Maintenance	265,903	334,331	(68,428)
Traffic Services Maintenance	54,036	17,418	36,618
Winter Maintenance	98,920	87,679	11,241
Administration/Engineering	33,185	29,568	3,617
Capital Outlay	241,500	177,891	63,609
Total expenditures	693,544	646,887	46,657
Excess of revenues over (under) expenditures	(532,544)	(460,808)	71,736
Other Financing Sources:			
Transfers in-			
General fund	50,000	-	(50,000)
Motor Vehicle Highway Fund	50,000	50,000	-
Major Street Fund	310,000	291,500	(18,500)
Capital Improvement Fund	60,000	78,500	18,500
	470,000	420,000	(50,000)
Excess of revenues and other sources over (under) expenditures	(62,544)	(40,808)	21,736
Fund Balance at beginning of year	278,759	278,759	-
Fund Balance at end of year	\$ 216,215	\$ 237,951	\$ 21,736

CITY OF MARYSVILLE, MICHIGAN
PUBLIC IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property Taxes	\$ 437,934	\$ 450,148	\$ 12,214
Interest	7,500	3,164	(4,336)
Special assessment	-	42,024	42,024
Total Revenues	445,434	495,336	49,902
Expenditures:			
Recreation and culture			
Administration	25,000	22,953	2,047
Other	10,000	9,993	7
Capital outlay	800,000	506,301	293,699
Total Expenditures	835,000	539,247	295,753
Excess of revenues over (under) expenditures	(389,566)	(43,911)	345,655
Other Financing Sources (Uses):			
Transfers out	(78,500)	(78,500)	-
Excess of revenues over (under) expenditures and other uses	(468,066)	(122,411)	345,655
Fund Balance at beginning of year	528,145	528,145	-
Fund Balance at end of year	<u>\$ 60,079</u>	<u>\$ 405,734</u>	<u>\$ 345,655</u>

CITY OF MARYSVILLE, MICHIGAN
INDUSTRIAL DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2004

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 1,500	\$(1,191)	\$(2,691)
Expenditures:			
Other			
Professional fees	1,000	500	500
Capital Outlay	297,000	-	297,000
Total Expenditures	298,000	500	297,500
Excess of revenues over (under) expenditures	(296,500)	(1,691)	294,809
Fund Balance at beginning of year	305,892	305,892	-
Fund Balance at end of year	\$ 9,392	\$ 304,201	\$ 294,809

CITY OF MARYSVILLE, MICHIGAN

RECREATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2004

	Original/ Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:			
County park millage	\$ 35,000	\$ 34,988	\$(12)
Interest	4,000	1,008	(2,992)
Other	8,000	7,970	(30)
Total Revenues	47,000	43,966	(3,034)
Expenditures:			
Recreation and culture			
Salaries and wages	92,148	96,537	(4,389)
Fringe benefits	64,962	49,374	15,588
Materials and supplies	1,460	1,174	286
Program expense	94,965	92,841	2,124
Travel	1,450	1,259	191
Insurance	5,141	3,272	1,869
Contracted services	506	1,107	(601)
Maintenance	12,200	4,599	7,601
Miscellaneous	6,630	6,297	333
Capital Outlay	10,750	2,710	8,040
Total Expenditures	290,212	259,170	31,042
Excess of revenues over (under) expenditures	(243,212)	(215,204)	28,008
Other Financing Sources:			
Transfers in	270,712	270,712	-
Excess of revenues and other sources over (under) expenditures	27,500	55,508	28,008
Fund Balance at beginning of year	6,377	6,377	-
Fund Balance at end of year	\$ 33,877	\$ 61,885	\$ 28,008

FIDUCIARY FUNDS

CITY OF MARYSVILLE, MICHIGAN

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND
JUNE 30, 2004**

	Employee Retirement Systems			Pension
	Police and Firemen		Other City	Health
	1940 Plan	1965 Plan	Employees	Care
ASSETS:				
Cash and cash equivalents	\$ 3,004	\$ 463,583	\$ 829,128	\$ 105,479
Investments, at fair value				
Marketable CD's	-	-	-	789,578
U.S. Government Securities	-	1,929,639	2,342,582	4,760,343
Commerical Paper	-	-	-	-
Convertible Securitites	-	75,600	75,600	-
Corporate Bonds	-	2,619,953	2,987,864	1,494,598
Stocks	-	9,389,068	10,577,113	-
Total Investments	-	14,014,260	15,983,159	7,044,519
Receivables -				
Accounts receivable	-	-	-	-
Interest and dividends	-	74,914	86,525	71,148
	-	74,914	86,525	71,148
Due from other funds	-	285,362	360,377	-
Total Assets	3,004	14,838,119	17,259,189	7,221,146
LIABILITIES:				
Accrued liabilities	\$ -	\$ 12,227	\$ -	\$ -
NET ASSETS:				
Net assets held in trust for pension benefits	\$ 3,004	\$ 14,825,892	\$ 17,259,189	\$ 7,221,146

<u>Employees Vacation/ Sick Pay</u>	<u>Total</u>
\$ -	\$ 1,401,194
-	789,578
-	9,032,564
-	-
-	151,200
-	7,102,415
-	19,966,181
-	37,041,938
-	-
-	232,587
-	232,587
765,694	1,411,433
765,694	40,087,152
\$ 765,694	\$ 777,921
\$ -	\$ 39,309,231

CITY OF MARYSVILLE, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Employee Retirement Systems</u>			<u>Pension</u>
	<u>Police and Firement</u>		<u>Other City</u>	<u>Health</u>
	<u>1940 Plan</u>	<u>1965 Plan</u>	<u>Employees</u>	<u>Care</u>
Additions:				
Contributions				
Member contributions	\$ -	\$ 101,003	\$ 127,376	\$ -
Employer contributions	35,665	362,780	586,255	1,365,355
Total Contributions	<u>35,665</u>	<u>463,783</u>	<u>713,631</u>	<u>1,365,355</u>
Investment income				
Interest/Dividends	-	521,249	594,520	311,355
Unrealized gain (loss)	-	584,780	903,813	(243,336)
Gain (loss) on sale of investments	-	590,106	401,723	49,171
Net investment income	<u>-</u>	<u>1,696,135</u>	<u>1,900,056</u>	<u>117,190</u>
Total Additions	<u>35,665</u>	<u>2,159,918</u>	<u>2,613,687</u>	<u>1,482,545</u>
Deductions:				
Retirement benefit payments	35,662	821,542	760,111	-
Health insurance	-	77,151	224,421	-
Vested benefits	-	522	524	-
Professional fees	-	89,734	97,656	-
Miscellaneous	-	5,166	7,951	-
Total Deductions	<u>35,662</u>	<u>994,115</u>	<u>1,090,663</u>	<u>-</u>
Net Increase (Decrease)	3	1,165,803	1,523,024	1,482,545
Net assets held in trust for pension benefits:				
Net Assets at beginning of year	<u>3,001</u>	<u>13,660,089</u>	<u>15,736,165</u>	<u>5,738,601</u>
Net Assets end of year	<u>\$ 3,004</u>	<u>\$ 14,825,892</u>	<u>\$ 17,259,189</u>	<u>\$ 7,221,146</u>

Employees Vacation/ Sick Pay	Total
\$ -	\$ 228,379
-	2,350,055
-	2,578,434
-	1,427,124
-	1,245,257
-	1,041,000
-	3,713,381
-	6,291,815
-	1,617,315
-	301,572
-	1,046
-	187,390
-	13,117
-	2,120,440
-	4,171,375
-	35,137,856
\$ -	\$ 39,309,231

**CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS**

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - SCHOOL AND COUNTY TAX FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 35,983	\$ 8,065,028	\$ 8,069,322	\$ 31,689
Taxes Receivable	<u>-</u>	<u>745,519</u>	<u>311,547</u>	<u>433,972</u>
Total Assets	<u><u>\$ 35,983</u></u>	<u><u>\$ 8,810,547</u></u>	<u><u>\$ 8,380,869</u></u>	<u><u>\$ 465,661</u></u>
Liabilities:				
Due to other governmental units -				
State	3,837	1,958,668	1,899,389	63,116
Local	<u>32,146</u>	<u>9,657,579</u>	<u>9,287,180</u>	<u>402,545</u>
Total Liabilities	<u><u>\$ 35,983</u></u>	<u><u>\$ 11,616,247</u></u>	<u><u>\$ 11,186,569</u></u>	<u><u>\$ 465,661</u></u>

CITY OF MARYSVILLE, MICHIGAN

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
General City:				
Land	\$ 993,932	\$ 15,000	\$ -	\$ 1,008,932
Land improvements	1,191,192	415,312	-	1,606,504
Buildings	6,052,486	-	-	6,052,486
Building improvements	422,388	60,234	-	482,622
Machinery & equipment	2,213,566	191,882	169,763	2,235,685
Vehicles	1,323,831	-	-	1,323,831
Bikepaths	360,161	-	-	360,161
Sidewalks	1,961,410	75,987	-	2,037,397
Streets	32,447,358	637,317	-	33,084,675
	<u>46,966,324</u>	<u>1,395,732</u>	<u>169,763</u>	<u>48,192,293</u>
Less - accumulated depreciation	(24,588,606)	(2,249,190)	(153,198)	(26,684,598)
	<u>22,377,718</u>	<u>(853,458)</u>	<u>16,565</u>	<u>21,507,695</u>
Construction in progress	220,576	497,194	220,576	497,194
	<u>220,576</u>	<u>497,194</u>	<u>220,576</u>	<u>497,194</u>
Net Total Investment in General Fixed Assets	<u><u>\$ 22,598,294</u></u>	<u><u>\$ (356,264)</u></u>	<u><u>\$ 237,141</u></u>	<u><u>\$ 22,004,889</u></u>

CITY OF MARYSVILLE, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
BASIC FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2004



CITY OF MARYSVILLE, MICHIGAN

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements. Those financial statements are the responsibility of the City of Marysville's management. Our responsibility is to express opinions on those financial statements based on our audit.

The financial statements referred to above do not include the Marysville Housing Commission, a component unit of the City of Marysville, which should be included to conform with accounting principles generally accepted in the United States of America. The amount of assets, liabilities, net assets, revenues and expenditures that should be included is not known.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was made for the purpose of forming an opinions on the financial statements that collectively comprise the City of Marysville, Michigan's basic financial statements. The Schedule of Federal Expenditures of Federal Awards presented on Page 6 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the basic financial statements. The information in this schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beauvais & Whipple

Certified Public Accountants

September 1, 2004



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2004, and have issued our report thereon, dated September 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Marysville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Marysville, Michigan, in a separate letter dated September 1, 2004.

This report is intended solely for the information and use of the management and City Council of the City of Marysville, Michigan, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stewart, Beaurain & Whipple

Certified Public Accountants

September 1, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

Compliance

We have audited the compliance of the City of Marysville, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Marysville, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Marysville, Michigan's management. Our responsibility is to express an opinion on the City of Marysville, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marysville, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Marysville, Michigan's compliance with those requirements.

In our opinion, the City of Marysville, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Marysville, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and City Council of the City of Marysville, Michigan, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

September 1, 2004

CITY OF MARYSVILLE, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
<u>Passed Through Michigan Jobs Commission:</u>			
Community Development Block Grant/State's Program	14.228		
Revolving Loan Fund-			
Small Cities Program		MSC 900139-EDIG	<u>\$ 600,000</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<u>Passed Through the Michigan Department of State Police :</u>			
State and Community Highway Safety -	20.600		
Drive Michigan Safety Task Force		MSP/OHSP OP03-15,410	21,800
<u>Passed Through St. Clair County :</u>			
Drive Michigan Safety Task Force		N/A	<u>1,496</u>
			<u>23,296</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Passed Through the Michigan Department of Environmental Quality:</u>			
Capitalization Grants for Drinking Water			
State Revolving Funds	66.468		
State Revolving Fund Loan		N/A	<u>343,447</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<u>Passed Through The Michigan Department of State Police:</u>			
Public Assistance Grant	97.036	N/A	<u>10,708</u>
Total Federal Awards			<u><u>\$ 977,451</u></u>

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Marysville as presented in its governmental and proprietary funds in the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. (See Note 3)

NOTE 2 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE:

Federal reimbursement for the Drinking Water State Revolving Fund program (CFDA #66.468) is a percentage of the total reimbursements. The federal percentage has changed based on specific periods of time. The federal portion which is reported on the Schedule of Expenditures of Federal Awards for the period reimbursed is 28.04%.

NOTE 3 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The following schedule reconciles the intergovernmental revenues reported in the June 30, 2004 basic financial statements for the primary government to the expenditures of the City of Marysville administered federal programs reported on the Schedule of Expenditures of Federal Awards.

	<u>Governmental Funds</u>		<u>Proprietary</u>	
	<u>Major</u>	<u>Non-Major</u>	<u>Funds</u>	<u>Total</u>
Balance per Financial Statements –				
Governmental Funds –				
Intergovernmental revenue	\$ 1,670,293	\$ 1,355,246	\$ -	\$ 3,025,539
Add: Reported as Bond proceeds				
(1,224,848 x 28.04%)	-	-	343,447	343,447
Less:				
State and Local intergovernmental revenue	<u>(1,636,289)</u>	<u>(755,246)</u>	<u>-</u>	<u>(2,391,535)</u>
Federal Award Expenditures				
Revenue per Basic Financial				
Statements	<u>\$ 34,004</u>	<u>\$ 600,000</u>	<u>\$ 343,447</u>	<u>\$ 977,451</u>

CITY OF MARYSVILLE, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

Section I – Summary Of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Qualified

Internal controls over financial reporting:

Material weakness(es) identified? _____ yes x no

Reportable condition(s) identified not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes x no

Reportable condition(s) identified not considered to be material weaknesses? _____ yes x none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A – 133, Section 510(a)? _____ yes x no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #14.228	Community Development Block Grant/ State’s Program
CFDA #66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes x no

Section II - Financial Statement Findings:

There were no financial statement findings

Section III - Federal Award Findings and Questioned Costs:

There were no Federal Award Findings and Questioned Costs.

Section IV – Prior years Findings and Questioned Costs:

No Single Audits in previous two years

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the City of Marysville, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon, dated September 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Marysville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Marysville, Michigan, in a separate letter dated September 1, 2004.

This report is intended solely for the information and use of the City Council of the City of Marysville, Michigan, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stewart, Beauvoir & Whipple

Certified Public Accountants

September 1, 2004

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

As you know, we have recently completed our audit of the financial statements of the City of Marysville, Michigan as of and for the year ended June 30, 2004. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control, operational efficiency and/or compliance with Federal or State requirements. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the **Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**, dated September 1, 2004, the conditions described below are not considered reportable conditions or material weaknesses.

The City should investigate integrating its payroll process and general ledger.

At the current time the City's payroll module and general ledger are not integrated. As a result after payroll is processed it must be manually inputted into the City's general ledger system. This requires a considerable amount of time and also the possibility entries can be incorrectly posted.

We recommend that the City investigate the possibility of integrating the payroll process and the general ledger.

The salaries and wages reported on the General Ledger and the wages reported in the payroll system should be reconciled on a quarterly basis.

At the current time the wages reported on the quarterly IRS 941 reports are not reconciled to the wages on the City's general ledger. To increase controls and assure proper posting we recommend that the amounts be reconciled before the quarterly reports are filed.

The City should consider standardizing the pay period.

At the current time the City has three different pay periods for City employees. This requires that payroll be processed an unnecessary amount of times and creates confusion on exactly what period employees are being paid for unless you are very involved in the process. In fact one group of employees is actually paid for a couple of days before the work has been performed.

To make the process more efficient and less confusing we recommend that the City try establishing one standard pay period.

The City should consider establishing a policy on the amount of cash that should be readily available at any time.

As of the end of the year the City had very little cash maintained in accounts that was considered readily available without cashing in some type of investment and possibly incurring penalties and/or market losses. We recommend that the City establish some broad guidelines on the amount of cash that should be maintained at any given time.

Budgets should be adopted for all Special Revenue Funds.

For the year ended June 30, 2004 there were two Special Revenue Funds that the City did not adopt budgets for, the Drug Law Enforcement and Industrial Aid Fund. Public Act 621 of 1978 requires that budgets be adopted for all Special Revenue Funds. In the future we recommend that budgets be adopted for all Special Revenue Funds.

Grants revenues and expenditures should be recorded at gross.

During our audit we noted that the City received a couple of state or federal grants and netted the revenues and expenditures. In order to correctly record that revenues and expenditures the amounts should not be netted but rather recorded at gross.

All investments should be recorded a “fair” value.

As of June 30, 2004 the City’s investments were initially recorded on the City’s accounting records at “cost”, except for the pension type funds. In recent years, generally accepted accounting standards have required that in most instances investments be carried at “fair” or “market” value. For the City’s June 30, 2004 financial statements we proposed audit adjustments to adjust the value of these investments to “fair” value. This resulted in adjustment to the City’s general fund of \$187,016 and various adjustments to other funds.

We recommend that in the future these investments be carried/recorded at “fair” value.

The City should transfer the accrued vacation and sick liability to the new fund used to account for this liability.

In prior years the liability for accrued vacation and sick time was recorded within the governmental funds where the employees are charged. Governmental accounting rules do not allow governmental funds to record long-term liabilities, which these would be, within the fund. As a result we proposed and the administration elected to create a new fund for the year ended June 30, 2003, the Employee Vacation and Sick Pay Fund, to account for these liabilities. This allows the City to advance “fund” this liability.

As a result “due to other funds” have been recorded in each funds to reflect the amount due the Employee Vacation and Sick Pay Fund. We recommend that the actual cash be transferred.

The City should investigate establishing “pass codes” over the journal entry process.

At the current time the City has instituted a number of controls over the journal entry process, including maintaining a log of all journal entries, having a formal approval process, maintaining support for each entry, etc.

In addition the City has designated one individual to post all entries. However, the computer module does not have access codes to prevent anyone else from posting a journal entry. To further strengthen controls, we suggest the City investigate the possibility of limiting access with pass codes.

This report is intended solely for the information of the City Council of the City of Marysville, management, others within the organization and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Stewart, Beauvais & Whipple".

September 1, 2004